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Bulletin LIRC 97-03

DATE: JULY 25, 1997

TO: ALL PROPERTY AND CASUALTY INSURANCE COMPANIES IN LOUISIANA

RE: Act 1476 - Omnibus Premium Reduction Act of 1997

The purpose of this Bulletin is to inform all companies authorized to write commercial and private passenger motor vehicle insurance of the new requirements imposed by Act 1476 of the 1997 Regular Session (hereinafter "Act") and to inform companies of the filing procedures implemented by the Louisiana Insurance Rating Commission (hereinafter "LIRC") in order to assist companies with the requirements of the Act.

This Bulletin is issued under the authority of R.S.22§1402, 1404, 1407, 1415 and 1447.

Act 1476, titled *Omnibus Premium Reduction Act of 1997*, is part of a set of legislative reforms which will reduce motor vehicle insurance costs in Louisiana. One of the principle features of the Act is the "limitation of recovery" provision, a/k/a "no pay, no play", which sets a recovery threshold for uninsured injured motor vehicle owner and operators. Specifically, motor vehicle insurers will no longer be required to pay for the first \$10,000 of bodily injury or the first \$10,000 of property damage to an uninsured motor vehicle owner and operator due to the negligence of insured drivers. This will necessarily result in a reduction of liability losses and loss adjustment expenses to motor vehicle insurers.

Therefore, in accordance with the requirements of Act 1476 and the statutory prohibitions against excessive rates, all motor vehicle insurers are directed to reduce motor vehicle liability rates to reflect the provisions of the Act in the manner prescribed by this Bulletin.

To assure compliance with the Act insurers should take note of the following.

IMPORTANT DATES UNDER ACT 1476

August 1, 1997 the declared "rate reduction day"; this is the day upon which all other dates legislated by the Act and defined in this section are based.

August 31, 1997 thirty (30) days after the rate reduction day; this is the "filing deadline" by which a filing must be received by the LIRC to be in compliance with Act 1476.

October 30, 1997 ninety (90) days after the rate reduction day; this is the “**compliance date**” or the date by which the LIRC must conclusively act on a rate filing to be in compliance with Act 1476.

November 29, 1997 one hundred twenty (120) days after the rate reduction day; this is the “**effective date**” for Sections 2 through 4 of the Act.

Note that the rate reduction day may change if a request for declaratory judgment is filed.

- If no suit is filed prior to August 1, 1997, the rate reduction day will be August 1, 1997.
- If a suit is filed prior to August 1, 1997, the rate reduction day will be the day a final and definitive judgment is rendered. Act 1476 will not be effective until this time.
- If suit is filed on or after August 1, 1997, the rate reduction day will be August 1, 1997. Act 1476 will be effective until declared otherwise by the court.

In each case, the LIRC will issue a Bulletin certifying the official rate reduction day. Once certified by the LIRC, all other dates can be determined based on the formulas outlined above.

ACT 1476 FILING REQUIREMENTS

Pertinent provisions of Act 1476 are stated below:

- A lowering of the legal interest rate.
- The offering of economic-only uninsured and underinsured motorist coverage.
- Notification of the Louisiana Department of Public Safety within fifteen (15) days of the effective date, termination date, withdrawal, cancellation, or lapse of a motor vehicle policy.
- No recovery by an uninsured owner or operator of a motor vehicle involved in an accident of up to the first \$10,000 of bodily injury.
- No recovery by an uninsured owner or operator of a motor vehicle involved in an accident of up to the first \$10,000 of property damage.
- The uninsured owner or operator of a motor vehicle may be assessed all court costs incurred by all parties when recovery from a suit is less than \$10,000.
- Preparation of a form by the Commissioner of Insurance for the rejection, selection of lower limits, or selection of economic-only uninsured motorist coverage.

The Act requires all commercial automobile and private passenger automobile insurers authorized to write in Louisiana to submit a rate and rule filing to the LIRC. Other provisions of the Act and the Insurance Code are applicable to this filing.

In order to facilitate compliance with the Act’s provisions and to expedite the filing process, the LIRC requests a company to take note of the following.

1. The LIRC will certify, by separate Bulletin, the official rate reduction day as soon as it is official. [Section 5.(D)(2)]

2. A company having approved commercial automobile or private passenger automobile rates and rules on file with the LIRC must file rates and rules in compliance with the Act. [Section 5.(C)]

A company licensed to write commercial automobile or private passenger automobile insurance in Louisiana and **which does not have** commercial automobile or private passenger automobile insurance **rates approved and on file with the LIRC does not have to make a filing** to be in compliance with the Act.

A company **which has** commercial automobile or private passenger automobile insurance **rates approved and on file with the LIRC but currently does not have any written exposure** in Louisiana **must file** to be in compliance with the Act.

3. A rate and rule filing mandated by the Act must be received by the LIRC no later than the filing deadline. [Section 5.(C)]
4. The LIRC will conclusively act on a rate filing by the mandated compliance date. [Section 8.(A)]

Upon receipt, a filing will be placed on the next LIRC agenda following established LIRC guidelines. The LIRC cut-off date and agenda hearing date will be in effect. If necessary on or before the compliance date, a special LIRC meeting may be called to act on any filings which address Act 1476 and are pending.

The LIRC will issue an action letter for a filing made under the provisions of Act 1476. The action letter will specify approval of a filing in compliance with the Act or disapproval of a filing not in compliance with the Act. This letter will be issued no later than one week after the compliance date mandated by Act 1476.

5. All new and renewal business issued by a company with a policy effective date on or after the Act's effective date must comply with the provisions of the Act. [Section 5.(D)(1)]
6. The rate and rule filing required by the Act should be filed separately from a filing which addresses rate adequacy or other rate and rule matters and should only include the following revisions:
 - A. A ten (10) percent rate reduction off currently filed and approved rates for bodily injury liability coverage and property damage liability coverage. [Section 5.(A)]
 - B. Rates and rules for economic-only uninsured motorists coverage which is in compliance with the provisions of Act 1476 and meet the requirements set forth in R.S. 22§1404 and other relevant statutes. [Section 5.(B)]
7. The rate reduction for bodily injury coverage and property damage mandated by the Act must be based on the average rate in each of the company's respective territories. [Section 5.(A)]

To meet this mandate every company should reduce its combined bodily injury coverage and property damage coverage rates a flat ten (10) percent from rates currently approved and on file with the LIRC.

The company may deviate the flat ten percent rate reduction by coverage (between bodily injury and property damage only) providing the company can actuarially demonstrate that the combined effect off current bodily injury and property coverage rates is a reduction of at least ten percent. For example, a company could request a twelve percent rate reduction on bodily injury coverage with a seven percent rate reduction on property damage coverage providing the combined bodily injury and property damage coverage rate reduction is at least ten percent.

If increased limit rates are multiplicatively derived off a base rate, only the base rate needs to be reduced. If increased limit rates are additively derived on top of the base rate, both the base rate and the increased limit rate must be reduced.

8. The rate for economic-only uninsured motorist coverage must be a minimum of twenty (20) percent off the average uninsured and underinsured motorist rate in each of the company's respective territories. [Section 5.(B)]

The company should provide in the filing materials actuarial support for the proposed economic-only uninsured motorist coverage rates by limit. The company may deviate the percentage reduction by coverage limit providing the company can actuarially support such deviation and demonstrate that the average reduction within each territory is at least twenty percent.

For clarification, the newly defined **economic-only uninsured motorist coverage applies to both uninsured and underinsured motorist situations** and for all limits of coverage afforded.

9. If a company is currently approved to use the latest ISO commercial automobile loss costs (CA-96-BRLA1) or private passenger automobile loss costs (PP-96-BRLA1), the company may file to adopt revised ISO loss costs which are in compliance with the Act: The company's currently approved loss cost multipliers should be retained and used with the revised ISO loss costs. Note that, due to the Act's time constraints, the request to adopt revised ISO loss costs may be filed and approved before ISO has, in fact, officially received approval of the revised loss costs.

If a company is approved to use any ISO loss costs or ISO premiums other than CA-96-BRLA1 or PP-96-BRLA1, the company can not automatically adopt the revised ISO loss costs which are in compliance with the Act. The company must first file to reduce their currently approved rates to be in compliance with the Act. This may be as simple as filing a revised loss cost multiplier which reflects the mandated ten percent rate reduction. Then, a request to adopt the latest ISO loss costs must be made under a separate filing.

10. The following instructions should be noted when completing the filing materials:
 - A. **It is not required that filing materials include** LIRC Exhibits A.1 through A.2, Exhibit B, Exhibits D.1 through D.6, Exhibit F, Exhibits G.1 through G.2, and the Tort Reform Worksheet to be in compliance with the Act.

Submission of LIRC Exhibit C, calculation of the company's loss cost multiplier, may be required; each company will need to make that determination.

- B. The company **must include** in the filing materials a table which cross-references current bodily injury coverage and property damage coverage rates (separately or combined) with the proposed and reduced bodily injury coverage and property damage coverage rates by territory and by coverage limit.
- C. The company **must include** in the filing materials a table which cross-references the currently approved uninsured and underinsured motorist rates with the proposed economic-only uninsured motorist rates by territory and by coverage limit.
- D. The company **must include** in the filing materials a copy of the last action letter from the LIRC approving current bodily injury coverage, property damage coverage, and uninsured and underinsured coverage rates. This letter was on LIRC letterhead addressed to the company.
- E. The company **must include** in the filing materials the following information:
- The proposed rate reduction by coverage.
 - The overall percentage impact the proposed rate reduction represents across all automobile coverages, i.e., liability and physical damage combined.
 - The dollar impact the proposed rate reduction represents on the company's Louisiana book of business.
 - The proposed effective date for new and renewal business.
11. The rate filing mandated by the Act shall not affect the company's filing status with regard to the twelve (12) month filing limitation set forth in R.S. 22§1401.J.
12. If a company can demonstrate that rate reductions mandated by the Act will result in inadequate rates, or would result in the continuation of inadequate existing rates, notify the LIRC by a **SEPARATE FILING** to remedy such situation. [Section 5.(A)] **An independent rate reduction filing mandated by Act 1476 must still be made.**

A rate adequacy request must be kept separate from a filing which addresses the mandates of Act 1476. In the adequacy filing, the company should follow previously published guidelines of the LIRC and comply with all Louisiana statutes, regulations, rules, bulletins and directives. The company should be prepared to provide actuarial support and make an oral presentation at a LIRC rate hearing.

Consideration by the LIRC of a request to alleviate an inadequate rate does not excuse the company's need to file as prescribed in items 1 through 11 above.

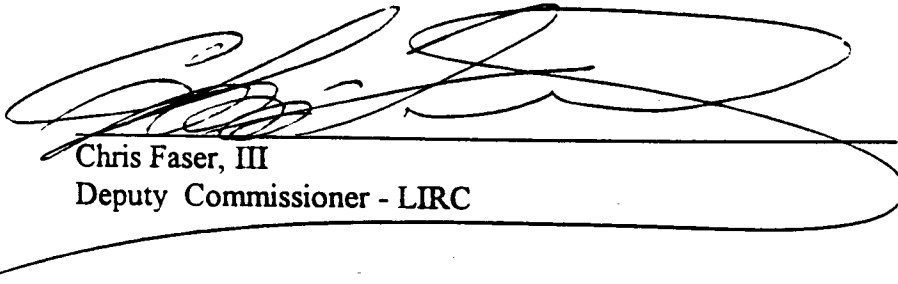
Consideration by the LIRC of a request to alleviate an inadequate rate does not excuse the company from filing LIRC Exhibits A.1 through A.2, Exhibits D.1 through D.6, Exhibit F, Exhibits G.1 through G.2, and the Tort Reform Worksheet in support of such request.

Consideration by the LIRC of a request to alleviate an inadequate rate is subject to the twelve (12) month filing limitation set forth in R.S. 22§1401.J.

13. In a future Bulletin the LIRC will distribute a copy of the form prescribed by the Commissioner of Insurance for the rejection, selection of lower limits, or selection of economic-only uninsured motorist coverage. This form, when signed by the named insured, shall be conclusively presumed to become part of the policy or contract when issued and delivered. [Section 3 of the Act amending R.S. 22§1406.D(1)(a)(ii)]

Note that form revisions, other than the rejection form prescribed by the Commissioner, must still be filed with the Licensing and Market Compliance Division, Forms Review Section for approval. Such a form filing must comply with all established filing procedures.

If you have questions regarding this Bulletin, you can reach LIRC staff at (504) 342-5202.



Chris Faser, III
Deputy Commissioner - LIRC

Attachment